

12 An Overview of Programs for Promoting the Rural Nonfarm Economy

STEVEN HAGGBLADE, DONALD C. MEAD,
AND RICHARD L. MEYER

Over the past five decades, the world has unleashed enormous energy and creativity into improving the lot of the rural poor. Outside India and China, efforts have often drawn inspiration from these two leaders, initially from India and more recently from China. Following the early India model, much of this effort has targeted small rural nonfarm enterprises, on which the landless poor of the developing world often depend. Featuring a cast of literally thousands, these efforts have involved a wide array of professionals—including civil servants, agronomists, economists, geographers, regional planners, engineers, managers, bankers, businessmen, farmers, and craftsmen—experimenting with virtually every imaginable combination of technical, financial, and policy support for rural nonfarm enterprises.

Indeed, because opportunities and constraints vary widely across countries and settings, this considerable programming diversity is highly appropriate. Would-be promoters of the rural nonfarm economy (RNFE) must navigate a highly variegated landscape populated by a spectrum of nonfarm activities ranging from painfully poor, labor-intensive “survivalist” activities to highly sophisticated, large-scale agribusinesses. Agronomic potential, policy environments, human endowments, and even weather all vary across locations—and frequently over time—generating rapid turnover and mutation of firms (Chapter 5). The resulting heterogeneity of enterprise sizes, activities, and economic environments leads to widely varying prospects for growth, further complicating the task of those who wish to stimulate rural nonfarm activity.

Not surprisingly, the diversity of situations and opportunities leads to a potentially bewildering array of programming options and experiences. This chapter attempts to summarize and categorize the principal approaches adopted to date in developing countries outside of India and China. Because of their scale and contrasting experiences, these two goliaths are treated separately, in Chapter 13. The discussion here traces the broad history of promotional efforts elsewhere, identifying key players, contrasting the premises on which they have based their work, and summarizing available evidence on impact and cost.

The Historical Evolution of Intervention Strategies for RNFE Promotion

Four Strategic Perspectives

Four major strategic thrusts have dominated efforts to stimulate the growth of the RNFE (Table 12.1). The first has focused on small enterprise promotion. Initially led by management specialists focusing on “modern small industry,” these efforts gave way to a second wave of poverty-induced interest in the informal sector and microenterprise promotion. Popular among market-oriented governments in the developing world and Western donors who support them, the small enterprise promotion camp houses a heterogeneous amalgam of civil servants, business groups, and volunteer agencies that provide credit, management assistance, technology development, entrepreneurship training, and marketing support to rural nonfarm firms.

A second strategic thrust has focused on promotion of agricultural marketing and agribusiness opportunities in specific commodity subsectors. Unlike the enterprise promotion specialists, who focus on individual small firms, this group examines a network of related large and small enterprises linked together in competing supply chains that assemble, process, and deliver a specific commodity to final consumers. Led by international agribusiness and supported by management consulting firms, agricultural marketing experts, groups in ministries of agriculture and commerce, and market-oriented nongovernmental organizations (NGOs), this group concentrates on constraints and opportunities in specific agricultural commodity subsectors. It focuses attention on large wholesalers, supermarkets, assemblers, and exporters as well as their links to small-scale rural suppliers and retailers. Following diagnostic exercises, interventions typically revolve around the supply of commodity-specific public goods such as marketing infrastructure, grades and standards, and rules of conduct.

The third strategic effort operating in this vast rural intersection has concentrated on regional development, on local governments, and on spatial dimensions linking economic activities across specific rural regions. Seen from this strategic perspective, the unit of analysis becomes the rural region, not an individual enterprise or commodity subsector. Initiated by the creation of central government ministries of rural development, by the empowerment of regional governments, or by the establishment of regional project authorities (see Chapter 11), these efforts have received technical support from an array of regional planners, public administration specialists, geographers, public finance experts, and technicians from line ministries of agriculture, education, and health. These various technical specialists study the spatial dispersion of agricultural potential, rural markets, and human settlement, as well as the hierarchies of towns and the infrastructure they provide in support of agricultural-nonfarm linkages. Interventions by this group have typically focused on programs to improve agricultural production, rural markets, and secondary towns. Many likewise emphasize

TABLE 12.1 Strategies for intervention in support of rural nonfarm enterprises

Strategy	Target	Intervener	Content	Additional relevant chapters, subjects treated
1. Small enterprise development	Enterprises	Ministries of industry and commerce Donor projects NGOs	Mostly supply-side promotion (credit, entrepreneurship, management, technology) Some market development	Chapter 13, India and China Chapter 14, technology Chapter 11, rural credit institutions
2. Agribusiness and agricultural marketing	Supply chains in specific commodity subsectors	International agribusiness Management consultants Ministries of agriculture and commerce Local government market authorities Commercially oriented NGOs	Provision of public goods (infrastructure, grades and standards, rules of conduct) Links between large firms and small	Chapter 9, agro-industries Chapter 15, subsector supply chains

3. Regional development	Rural regions	Central government ministries of rural development Regional and local governments Special project authorities	Multisectoral (agriculture, nonfarm, health, education) efforts Technical inputs Social services Infrastructure	Chapter 8, cities and towns Chapter 11, alternative institutional models
4. Public policy and investment	Macro economy Sectors Subsectors	Central governments Local governments	Focus on general enabling environment (policies governing trade, exchange rates and controls, interest rates, taxation, pricing, public investments, enterprise regulation)	Chapter 11, policy and institutional environment Chapter 13, India and China

local governance and decisionmaking. They explore opportunities for siting the rural infrastructure and basic public education and health services necessary to facilitate regional and local economic development.

A fourth strategic perspective explores primarily the broader issues of public sector investments and macroeconomic policy. In the past, many governments, particularly in Asia, have operated highly directive policy environments, channeling investment flows into (and in some cases out of) rural areas and enunciating policies that encouraged or even stipulated by fiat which industries should operate in rural areas. Subsequent liberalization of protective measures and controls on rural nonfarm activity reflected a widespread view that policies had often acted as a significant brake on rural nonfarm development. Policymakers everywhere have seen periods when public support was seen as crucial for financing productivity-enhancing investments in education, financial institutions, and physical infrastructure and for establishing a favorable policy environment for rural business development, reflecting an evolving view of the development process and of government's facilitating role. This perspective reflected the optimistic view that, once released from the fetters of inappropriate policies, the "magic of the market" would unleash a surge of economic activity among nonfarm enterprises in both urban and rural areas (Chapter 11).

Over time, the dominant paradigms within each strategic group have shifted considerably. Many efforts began in urban areas and shifted their attention only gradually and partially to rural areas. Frequently these efforts have moved in parallel, as the following chronology reveals.

Small Enterprise Promotion

Modern-day efforts at business promotion in the developing world began with the classic small enterprise promotion model developed by a team of advisers working in India in the 1950s and 1960s.¹ With Ford Foundation funding, these advisers developed a program of integrated support that focused on stimulating growth in "modern small enterprise," which they defined as those enterprises employing fewer than 100 people.² This approach, as summarized in a seminal book by two key participants (Staley and Morse 1965), viewed household and artisanal activities as backward and likely to atrophy with economic growth.³

1. This section draws on reviews by Stepanek (1960), Staley and Morse (1965), Kilby (1988), Boomgard (1989), Otero and Rhyne (1994), Haggblade (1995), Snodgrass and Biggs (1996), Levitsky (2000), and Snodgrass and Packard Winkler (2004).

2. Though many classifications are possible, this chapter will refer to micro and small enterprises as those employing 10 workers or fewer, medium-scale enterprises as those employing 11 to 100, and large enterprises as employing more than 100 workers. In this classification system Staley and Morse's client group, "modern small industry," falls into the medium-scale category.

3. See Anderson (1982) for empirical evidence of the decline of household industries.

Because of the geographic origins of this approach and because the Indians became its most prominent exporters to the rest of the developing world, it has become known as the India model.

Using an analogy from agricultural research, where a combination of fertilizer, water, and new seeds was seen to produce greater productivity gains than any single element in isolation, Staley and Morse founded their fledgling industrial promotion credo on this same principle of “combinations and interactions.” In their words, “Any single-factor approach to small industry development in a newly industrializing country is likely to be ineffective and wasteful. An integrated program that works on a carefully selected combination of factors simultaneously—the exact combination depending on local conditions—is much more likely to prove worthwhile” (Staley and Morse 1965, 353). Hence the comprehensive and highly integrated package of support embodied in the India model. From initial feasibility studies to entrepreneurship and management training, technical research and extension, marketing assistance, and the provision of common workshop facilities, power, road infrastructure, and finance, the India model offered cradle-to-grave support for assisted firms. Generally subsidized, these services and programs typically revolved around a network of industrial estates with contiguous classrooms and office facilities for extension and technical support staff.

Major donors such as the United Nations Industrial Development Organization (UNIDO), the International Labor Office (ILO), and the Swedish International Development Agency enthusiastically exported this model throughout the developing world from the early 1960s on. In 1966 an Indian advisory mission to Kenya led to the establishment of the Kenya Industrial Estates program, which subsequently expanded to operate the Rural Industrial Development Programme. Originally designed with modern urban and medium-scale industry in mind, the India model constituted the state of the art in business promotion practice during the 1960s and 1970s. As attention turned increasingly to rural areas, business promotion specialists transplanted these same tools into rural settings and outside of Asia, where smaller firms and less dense business activity prevailed. With large initial programs in India and Kenya, the India model of nursery industrial estates and complete packages of assistance spread with the creation of large programs in Bangladesh, Botswana, Burkina Faso, Indonesia, Lesotho, Malaysia, Nigeria, Pakistan, Swaziland, and Tanzania.

Beginning in the late 1970s, a wide array of implementing agencies began to take liberties with the basic India model. During the broad rural and poverty-focused reorientation of the 1970s (see Chapter 2), interventions increasingly focused on poor people, smaller-scale informal enterprises, and rural areas. In this climate, a great deal of experimentation took place as old line business promotion agencies endeavored to focus their attention on the plight of the rural poor. In the process, a new cohort of poverty-focused interveners (governments, NGOs, and donors) entered the fray alongside the business management set.

In many cases, these experiments tended to single out one or a few business promotion tools for special attention.⁴ A stream of engineering work focusing on low-capital “appropriate technology” began in the early 1970s, following publication of the influential book *Small Is Beautiful* by E. F. Schumacher (1976). Focusing on inexpensive but high-productivity technology, this work led to the development and dissemination of a stream of technical innovations: rice dehullers, silk reelers, maize grinders, oil presses, windmills, hand pumps, and the ubiquitous improved stoves. Key practitioners of engineering research and development for rural nonfarm enterprises currently reside in institutions such as the Intermediate Technology Development Group, begun by Schumacher; Appropriate Technology International, recently reorganized as EnterpriseWorks Worldwide; and the Swiss Center for Appropriate Technology.⁵ The private sector, of course, also continues to innovate and disseminate new technology, as the many examples in Chapter 14 attest.

Management extension branched off the industrial estates and moved into rural areas and trading establishments, with pioneers such as the barefoot consultants of Malcolm Harper’s Partnership for Productivity (PfP) in Kenya in the mid-1970s (Harper 1977). PfP and others based their efforts on the premise that simple, improved management tools could result in immediate cost savings and increased earnings for even the smallest business. In parallel, organizations focusing on medium-scale businesses, such as the ILO and UNIDO, transferred their management consulting and advising to rural areas through programs such as the ILO’s Improve Your Business program (Samuelson 1997).

Large private enterprises likewise offer many of these same support services to small rural nonfarm firms in certain circumstances. Long before management extension became fashionable among governments and donors, Unilever South Africa operated an in-house management support service for retailers of its products (Rodolo 1972). The company recognized that a prosperous, growing network of retailers could sell more of its products and prove more reliable and credit-worthy partners in the future. Similarly, urban-based garment subcontractors and tinmaking firms in the Philippines routinely supply technical advice and quality control to their rural subcontractors (Hayami, Kikuchi, and Marciano 1996). Yet large firms sometimes squash smaller rivals as well (see the many examples in Chapters 9 and 15). Recognizing these important relationships, recent efforts have attempted to foster commercial business linkages between large and small firms in supply chains where their

4. In an early evaluation of technical assistance programs for rural industry, Kilby and Bangasser (1978) and Kilby (1979) first voiced the then-heretical view that the most cost-effective interventions were those that focused on a “single missing ingredient” rather than on a full complement of support services.

5. Darrow and Saxenian (1993) provide a detailed roster of 27 agencies specializing in appropriate technology development and diffusion.

interests converge.⁶ Related work on enterprise clusters recognizes the important flows—of technology, know-how, and credit—among private firms (Porter 1998; Schmitz and Nadvi 1999). By working through large firms, these efforts aim to leverage intervention efforts and make them commercially sustainable.

Entrepreneurship development, an element of the original India model, retains a devoted following in the more specialized twenty-first century. Based on the notion that entrepreneurs prove to be key motors of business growth and that distinguishing personality traits can be identified and nurtured, several institutions—most notably the Entrepreneurship Development Institute of India; the Creation of Entrepreneurs, Formation of Enterprises (CEFE)⁷ program of GTZ (Gesellschaft für Technische Zusammenarbeit); Management Systems International; and the Empreendedores e Tecnologia (Entrepreneurship and Technology) program of the United Nations Conference on Trade and Development—continue to prepare diagnostic instruments and run active entrepreneurship training and promotional programs.⁸ Over 100 institutions offer entrepreneurship development training in India alone (Awasthi, Murali, and Bharat 1990; Harper and Finnegan 1998).

Credit schemes proliferated at an astounding rate from the late 1970s through the first decade of the twenty-first century, particularly in urban and high-density rural areas. Because institutional finance from development banks had consistently failed to reach the lowest income groups and because these directed credit models proved costly and unsustainable, attention focused increasingly on new ways of expanding access to credit for the rural poor.⁹ The well-documented failures of many directed agricultural and small business credit programs contributed to the emergence of a “new view” of rural finance prescribing a markedly different institutional design involving high interest rates and reduced cost of administration.¹⁰ Following highly regarded poverty lending schemes such as those of the Grameen Bank, the Bangladesh Rural Advancement Committee (BRAC), and the Association for Social Advancement in

6. Grierson, Mead, and Moyo (1997), Steel, Tanburn, and Hallberg (2000), Donor Committee (2001), Lusby and Panliburton (2002), Bear, Gibson, and Hitchins (2003), Hitchins, Elliot, and Gibson (2004), Miehlebradt, McVay, and Tanburn (2005).

7. CEFE is also referred to as Competency-based Economics through Formation of Enterprises.

8. McClelland (1961), McClelland and Winter (1969), Kilby (1971, 1988), Awasthi, Murali, and Bharat (1990), ILO (1992), Kolshorn and Tomecko (1995), MSI (1997), Kolshorn and Weihert (2000).

9. Trends in World Bank lending, for example, reveal a clear shift out of lending for small and medium-scale enterprises and into microenterprise credit (Webster, Riopelle, and Chidzero 1996).

10. Adams and Graham (1981), Adams, Graham, and Von Pischke (1984), Von Pischke (1991), Otero and Rhyne (1994), Christen et al. (1995), Meyer and Larson (1997), Vogel and Adams (1997), Yaron et al. (1997), Robinson (2002).

Bangladesh; the government-run Bank Rakyat Indonesia's Unit Desa (BRI-UD, or Village Bank) in Indonesia; and Promotion and Development of Microenterprises and Bancosol in Bolivia, a vast army of imitators has experimented with, expanded, and replicated microenterprise credit schemes. Though most microcredit programs have concentrated on urban areas, several densely populated Asian countries launched pioneering rural credit schemes, including the BRI-UD in Indonesia and Grameen Bank and BRAC in Bangladesh. Typically these programs offer small, short-maturity loans at high, unsubsidized interest rates. They motivate repayment through group lending or through repeat lending in escalating loan sizes. In an effort to become cost-covering, self-sustaining financial institutions, the most efficient slash administrative costs to the bone. They offer stripped-down, no-frills, "minimalist" credit to the poor.¹¹

Credit unions offer services to millions more. Some organizations employ a village banking model to build small, member-owned financial institutions. In other locations, commercial banks have opened loan windows to serve poor clients. New start-up banks in several Eastern European countries offer still another model for small enterprise credit, especially in urban areas.

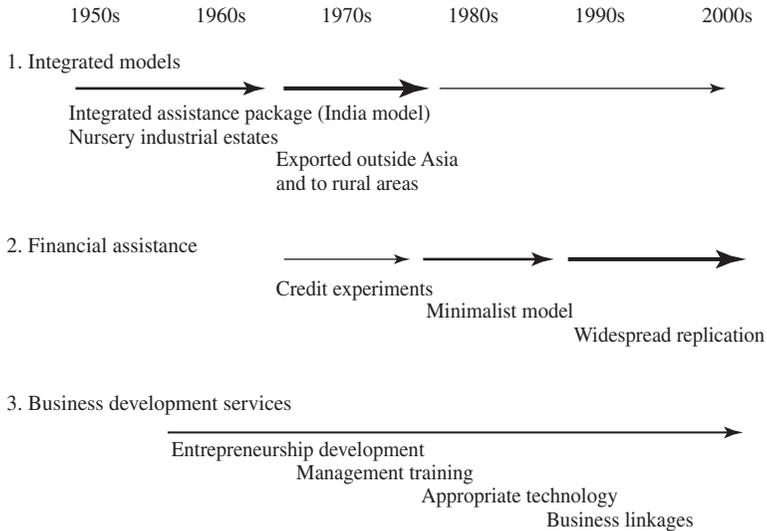
A growing proportion of these credit institutions also offer savings facilities, recognizing that poor people often value a secure place to lodge their hard-won surplus cash as much as the opportunity to obtain credit. A leader in this effort, Indonesia's state bank, BRI, held over \$2.1 billion in deposits in 2000, attracting six times as many deposit as loan accounts and with deposits covering lending from 1990 onward (Boomgard and Angell 1994; Robinson 2002). By acting as intermediaries between rural savers and borrowers, these institutions ultimately aim to become financially self-sustaining and move beyond their heavy initial reliance on infusions of government and donor funding (Otero and Rhyne 1994; Development Finance Forum 2004). The goal of these broader institutions has moved beyond microenterprise credit to microenterprise finance, providing self-sustaining savings, lending, and remittance transfer services to the rural poor (see Chapter 11).

In the early years of the twenty-first century, the major focus of direct enterprise promotion remains financial assistance (Figure 12.1). Key players in this effort include credit unions, village banks, NGO microenterprise projects, specialized banks for the poor, and rural branches of national banks, all actively and enthusiastically financed by virtually all donors, from multilateral banks to major bilateral donors and foundations.¹² Even some commercial banks have begun to offer microfinance loans in an effort to expand their lending markets

11. Tendler (1989) appears to have been the first to apply the term "minimalist" to these stripped-down, no-frills credit schemes.

12. Otero and Rhyne (1994), CGAP (1995), Hulme and Mosely (1996), Morduch (1999a), Daley-Harris (2005).

FIGURE 12.1 Historical evolution of efforts to promote small and microenterprises, 1950s–2000s



NOTE: The thickness of the arrows indicates the relative scale of each wave of activity.

(Baydas, Graham, and Valenzuela 1997; Valenzuela 2002). Socially oriented commercial investors are likewise becoming increasingly active in funding the most promising microfinance institutions. In spite of questioning by prominent doubters,¹³ practitioners’ enthusiasm for minimalist credit continues largely unabated.

Over the past five decades, small enterprise promotion has undergone a radical transformation. The dominant promotional model—the comprehensive, high-subsidy, high-input India model of hothouse nursery estates and cradle-to-grave services—has been supplanted by new, polar opposite, paradigms emphasizing a single input, a drive for full cost recovery, and persistent, pragmatic cost cutting intended to strip away all unneeded extra services in the pursuit of focus and financial sustainability. Today the enterprise promotion school encompasses two broad groups: the minimalist credit advocates and a heterogeneous collection of practitioners regrouping and refining methods for cost-effective delivery of business development services “beyond credit.”¹⁴

13. Osmani (1989), Adams and Von Pischke (1992), Abugre (1994), Rogaly (1996), Buckley (1997), Dawson and Jeans (1997), Dichter (2006).

14. Chen (1996), Dawson and Jeans (1997), Nelson (1997), Fisher and Sriram (2002).

Agricultural Marketing and Agribusiness

Agricultural marketing and processing often constitute the largest components of the RNFE. In the low-income developing world, agribusiness accounts for roughly half of manufacturing value added (Austin 1992) and 20 to 30 percent of gross domestic product (Jaffee et al. 2003). Its importance has increased rapidly in recent decades. Growing urbanization in the developing world, declining transport costs, and the economic integration accompanying globalization have all contributed to substantial increases in the scale of domestic and international agricultural marketing and agribusiness activity. Spurred by these opportunities, agricultural marketing and agribusiness specialists have invested considerable efforts in developing diagnostic tools aimed at improving the efficiency of agricultural marketing institutions.¹⁵ From this strategic perspective, the unit of analysis and intervention becomes not the enterprise but rather an entire commodity subsector, or value chain—that is, a network of firms interlinked in competing supply channels that assemble, transform, and deliver a particular category of consumption good to the final consumers.

The first big wave of interest in agricultural marketing and agribusiness promotion in the developing world emerged on the heels of the green revolution. Following the widespread release of improved hybrid varieties of rice, wheat, and maize throughout much of Asia and Latin America during the late 1960s and 1970s, marketed volumes increased far faster than rapidly growing farm production. As a result, these growing agricultural surpluses rapidly gave rise to second generation problems of marketing, processing, and distribution (Falcon 1970).

During these early decades, many governments in developing countries intervened directly in agricultural markets through parastatal marketing companies to protect consumers from volatile prices and what they presumed to be predatory private traders.¹⁶ In addition to making traditional public investments in roads and communications infrastructure, many governments invested in more focused types of marketing infrastructure such as wholesale markets, warehouses, ports, and rural market facilities. Common government coordinating tools include zoning regulations, the introduction of grades and standards, inspection of weights and measures, and the establishment of market information systems.¹⁷ A series of diagnostic subsector studies in Latin America

15. Goldberg (1968, 1974), Shaffer (1968, 1980), Riley and Weber (1983), Shaffer et al. (1985), Abbott (1986), Holtzman (1986), Mittendorf (1986), Holtzman, Abbott, and Martin (1989), Maxwell and Holtzman (1995), Bourgeois and Herrera (2000), Miles (2001), Magistro et al. (2004).

16. See Tyagi (1990), Jayne and Jones (1997), Timmer (1997), and Kherallah et al. (2002).

17. See Schubert (1983), Abbott (1986), Mittendorf (1986), and Escobar, Reardon, and Berdegué (2001).

during the 1970s led to a variety of supply chain interventions involving zoning, provision of physical infrastructure, introduction of grades and standards, and improved market organization, often with mixed public and private cooperation. Well-known examples include the CORABASTOS (Corporacion de Absticimientos de Bogota), a state-sponsored marketing agency in Bogotá, Colombia, and Brazil's COBAL (Companhia Brasileira de Alimentos), a program for the initiation of a series of rural assembly markets for fruits and vegetables during the 1970s (Harrison et al. 1975; Mittendorf 1986).

Key monitors and interveners in these growing agricultural marketing systems include ministries of agriculture and sometimes commerce, as well as large agribusiness firms, both domestic and international. International management consulting firms and business schools with international and agribusiness specializations, such as Harvard and Thunderbird, offer analytical support to large firms in specific agribusiness topics.¹⁸ In the public sector, agricultural marketing specialists at major U.S. universities—Cornell, Kansas State, Michigan State, and Stanford—have invested in training and in several generations of important diagnostic assessments of agricultural marketing systems in the developing world.¹⁹ Operationally, the Food and Agriculture Organization's marketing group has provided marketing advisers and technical support for marketing reforms that have been supported in later years by the agribusiness group at the World Bank.²⁰ A handful of NGOs, such as ACDI/VOCA (Agricultural Cooperative Development International / Volunteers in Overseas Cooperative Assistance), the Cooperative League of the USA, EnterpriseWorks /VITA (Volunteers in Technical Assistance), International Development Enterprises (IDE), the Intermediate Technology Development Group, Mennonite Economic Development Associates, and Technoserve, has likewise specialized in agribusiness promotion, focusing on improved processing technologies and marketing arrangements that link small players with large firms in growing market channels.²¹

A second wave of interest in agricultural marketing and agribusiness emerged in the 1990s, launched by the simultaneous liberalization of agricultural markets and trade regimes throughout much of the developing world.²² Unlike the first era, in which public institutions played a predominant role in agricultural markets, the second phase of agribusiness growth has been

18. Goldberg (1968, 1974), Austin (1992), Brown (1994), Murphy (2001).

19. Mellor (1966), Shaffer (1968), Jones (1970), Phillips (1973), Harrison et al. (1975), Lele (1975), Anthony et al. (1979), Riley and Weber (1983), Timmer (1987), Reardon et al. (2003).

20. Abbott (1986), Mittendorf (1986), Jaffee et al. (2003).

21. Bowman and Reiling (1990), Hyman (1993a), EnterpriseWorks Worldwide (1997), Kapila and Mead (2002), Magistro et al. (2004), Neven and Reardon (2004), IDE (2005).

22. This discussion draws on work by Fernandes et al. (2000) and Jaffee et al. (2003) and a stream of studies by Reardon, Bergedué, and colleagues, summarized by Reardon and Bergedué (2002) and in Chapter 9.

dominated by large private firms. A flood of supermarkets and large agribusiness processors across Latin America, Asia, and Africa has led to rapid change in the structure of agricultural marketing systems (Chapter 9). In their drive to remain competitive, the newly ascendant supermarkets and large-scale agribusiness firms have rapidly taken steps to rein in costs and improve the quality, consistency, and diversity of their offerings. Increasingly stringent food safety regulations reinforce incentives for meticulous supply chain management. To reduce costs and improve market coordination, they establish large regional distribution centers and logistics platforms, and many times they contract directly with wholesalers or even large-scale producers. Private branding and quality control lead to the introduction of private grades and standards specifying the quality, safety, volume, and packaging of products. Because competition requires rapid adjustment and execution, the large private food retailers now frequently establish the prevailing grades and standards governing product quality, safety, and packaging.

Traditional interveners are currently scrambling to find ways they can help small agribusiness firms adjust to compete in these rapidly changing food supply chains.²³ A series of innovative government programs in Brazil, Chile, and Mexico aim to equip groups of rural producers to compete in increasingly concentrated agribusiness supply chains (Berdegué 2001; Del Grossi and Da Silva 2001; Reardon and Flores 2006). Publicly funded central facilities for assembly and grading of produce make it possible for small suppliers to supply supermarkets in Chile and Thailand.²⁴ Amendments to contract law, such as the prompt payment clause introduced on behalf of fruit and vegetable growers in Argentina, can help create a level playing field in which smaller players can more effectively participate (Brom 2002). Extension of food safety certification to smallholders has enabled Guatemalan small farmers to supply supermarket chains there (Berdegué et al., 2005). Credit lines for upgrading machinery and equipment may be necessary to permit the scaling up required by new, more sophisticated buyers. Agribusiness-oriented NGOs assist rural businesses, farmers, or cooperative associations to access lucrative urban and export markets by facilitating input supply, certification of standards, and market contacts with large firms.²⁵ Similarly, through the *Fabrica do Agricultor* program in Parana, Brazil, the state government and the World Bank have provided marketing, packaging, and contracting assistance that enables small-scale food processors to supply regional supermarkets (Del Grossi and Da Silva 2001).

23. See Vorley (2001, 2004), Jaffee et al. (2003), Neven and Reardon (2004), Reardon (2004), Technoserve (2004), Weatherspoon and Mumbreño (2004), and Goletti (2005).

24. Reardon and Berdegué (2002), Van Roekel et al. (2002).

25. Mead (1994b), De Crombrugge and Montes (2000), Grierson, Mead, and Kakore (2000), ACDI/VOCA (2001), Rawlinson and Fehr (2002), Stosch and Hyman (2002), Magistro et al. (2004).

In some instances, private firms have assisted small enterprises to participate in these newly ascendant market channels. Hortifruti in Costa Rica and former fresh vegetable exporter Agriflora in Zambia offered technical assistance and financial assistance, through either input credit or help in accessing bank loans, to help smallholders participate in growing export markets (Reardon and Berdegú 2002; Gonzalez-Vega et al. 2006). The Horticultural Export Growers Association in Zambia, a joint government-industry initiative, has introduced a special two-year degree program in horticultural production, grading, and handling that graduated its first class in 2002. The Dutch multinational retailer Royal Ahold offers a supply improvement program for vegetable suppliers in Thailand, specifying the postharvest and production practices required to meet the company's supply standards (Boselie 2002).

Suppliers of business development services have likewise begun to explore ways of facilitating these commercial business linkages between large and small private firms. Rather than becoming direct suppliers of services, those employing this new market development approach aim to facilitate commercially viable business relationships between large and small firms.²⁶ In many cases, private exporters or brokers provide embedded services such as input credit or technical support to small producers in return for guaranteed sales of their output.²⁷

More traditional business development services (BDS) continue to operate through general business development programs, sometimes consolidated in multipurpose agribusiness development centers (ADCs). Offering technical, marketing, and sometimes financial assistance, the ADCs offer the standard enterprise promotion services to the agribusiness community (Lamb and Brower 2001).

Regional Development

Regional and local area development efforts in the developing world have a long though uneven history.²⁸ They are founded on several key premises. The first holds that an economic catchment area, a geographic unit of intervention, offers many practical opportunities for coordinating and stimulating necessary linkages between agricultural input supply, local infrastructure, nonfarm processing and marketing, human settlement, and social services. Second, many

26. Barton (1997), Grierson, Mead, and Moyo (1997), Steel, Tanburn, and Hallberg (2000), Lusby and Panliburton (2002), Bear, Gibson, and Hitchins (2003), Hitchins, Elliot, and Gibson (2004).

27. Escobal, Agreda, and Reardon (2000), LaFleur (2000), Mwanamwambwa-Wright (2000), ECI (2001a,b).

28. See Friedman (1975), Gilbert (1992), Rondinelli (1993), Tacoli (1998), and Tacoli and Satterthwaite (2003).

believe that local participation in decisionmaking, because it is based on a more detailed understanding of local opportunities and priorities, will often prove most effective in mobilizing, allocating, and monitoring the deployment of scarce regional investment resources. Over time, governments have applied these principles in varying scales of complexity.

During the rural renaissance of the 1970s, a wave of large-scale regional development efforts emerged in the form of integrated rural development (IRD) programs. Recognizing the links between agriculture and rural industries, between health and worker productivity, between governance and infrastructure maintenance, these ambitious efforts aimed to integrate provision of social services, productivity growth in agriculture, nonfarm activity, government finance, and rural infrastructure. Though prepared in many flavors, most contained an agricultural production component together with public infrastructure and provision of social services such as education and health services.²⁹ Key actors in these efforts included central government ministries, local governments, and foreign donors. In some cases, central governments created new ministries of rural development or charged their ministries of agriculture with overall regional development coordination. In other cases, local governments or independent project authorities retained control. These institutional options are described in some detail in Chapter 11.

Following widely touted pilot projects in the early 1960s in Comilla, Bangladesh, and during the late 1960s in Puebla, Mexico, IRD efforts spread like wildfire across the noncommunist developing world. At their peak, hundreds of programs operated in over 50 countries.³⁰ The World Bank alone supported over 400 IRD activities and spent \$6.3 billion on IRD efforts during this period. The U.S. Agency for International Development (USAID) supported IRD projects in over 100 locations. The best known of these efforts include the Bicol River Basin project in the Philippines, the CADU Project in Ethiopia, the Lilongwe Project in Malawi, and the Puebla Project in Mexico.

Breathtaking in their ambition and scope, the IRD efforts in most parts of the world collapsed under the weight of their organizational complexity, administrative infighting, and high cost.³¹ A few, such as the Aga Khan–funded efforts in Pakistan, continue to receive kudos (World Bank 1990). In other areas, some programs likewise continue to operate, particularly in South America, though at very low levels and without the major infusion of donor funding that fueled many of the programs worldwide (Tendler 1993).

A set of more focused efforts at regional and local economic development have attracted renewed interest in the 1990s and into the twenty-first century.

29. Ruttan (1975, 1984), de Janvry (1981), World Bank (1987).

30. Ruttan (1984), USAID (1987), World Bank (1987), Donaldson (1993).

31. ILO (1974), Holdcroft (1978, 1984), Rondinelli (1986), USAID (1987), World Bank (1987, 1994).

Resurgent interest in decentralization has taken a more overtly political tone this time around; efforts now aim to promote local decisionmaking and thereby stimulate local area development.³² The economic component of this new wave of political decentralization flies under the banner of local economic development or territorial development.³³ Like the previous approaches, this strategy is based on the premise that a combination of ingredients—agricultural technology, rural roads, and communications facilities—is necessary to stimulate rural growth. In many instances, these territorially based efforts center around the development of social investment funds under which local leaders identify key investments for stimulating local economic and social development. Unlike many of the earlier integrated administrative models, the current approach relies on local administrative bodies instead of special project authorities or central government agencies (see Chapter 11). In this respect, it follows the Chinese model of local government–led rural nonfarm enterprise promotion (see Chapter 13).

The local economic development practitioners have borrowed analytical and implementation tools from the other schools and have made some advances of their own. Frequently they draw on the work on competitive advantage and economic clusters of related firms, a concept closely allied with value chains, supply chains, and subsectors that has come out of agricultural marketing and small enterprise development.³⁴ They have developed and refined an assortment of assessment tools, including participatory analysis of competitive advantage and subsector analysis, as aids in assessing promising key activities, mapping and understanding competitive and input supply relationships in the supply chains, and developing concrete interventions that can stimulate economic growth among economic clusters of enterprises linked together in what are commonly termed supply chains, value chains, or subsectors.³⁵ Like the first generation of regional development specialists, the new wave of local economic development has both borrowed from and contributed to the development of analytical and implementation tools used by the small enterprise, agribusiness, and policy wings of the rural nonfarm promotion coalition.

Macroeconomic Policies and Government Investments

Government policies and investments have long played a central role in promoting—and sometimes in hindering—the RNFE. Some governments have intervened explicitly and in highly directive ways, as in India, China, Japan, and elsewhere in East Asia (Chapters 10 and 13). Others have adopted indirect incentive policies, in many cases by default (Chapter 11).

32. Rondinelli (1981), Nel (1996), Peterson (1997), Manor (1999), World Bank (2001), Tacoli and Satterthwaite (2003).

33. Nel (1996), Farrell and Thirion (2001), Stohr (2001), Meyer-Stamer (2002), Evans (2004).

34. Boomgard et al. (1992), Porter (1998), Schmitz and Nadvi (1999).

35. Gaile (1992), Dowds and Hinojosa (1999), Evans (2001, 2004), Meyer-Stamer (2002).

Obviously a favorable policy environment leading to broad-based economic growth creates an environment conducive to the growth of productive employment among RNFEs. Conversely, when the economy as a whole stagnates, whether because of poor policies, bad weather, or for any other reason, rural nonfarm enterprises suffer as well, in ways that even the best of projects are unlikely to offset.

Consequently, members of the small enterprise, agribusiness, and local economic development camps evince an increasing awareness of the important opportunities for RNFE promotion via policy reform. The Inter-American Development Bank (IDB), for example, has made policy dialogue one of two key planks in its five-year microenterprise support program (IDB 1997). Likewise, a number of small enterprise promotion groups now explicitly advocate policy dialogue as a necessary component of rural and small enterprise promotion.³⁶ And the agribusiness literature detailing the dramatic impact of trade and investment liberalization on agribusiness supply chains in the developing world underscores the importance of policy as a powerful instrument for initiating change in the RNFE (Chapter 9). Governments from Vietnam to Latin America increasingly consult with the private sector on policy issues through roundtables and *mesas de concertación*. This convergence of interest suggests that policy-level reviews and interventions may become increasingly common as a tool for stimulating growth in the RNFE.³⁷

Few practitioners doubt the power of policies to influence large numbers of rural firms at a single stroke—for good or for ill. Differences emerge, however, when discussing what else governments ought or ought not to do to promote the RNFE. Many counsel that government should confine itself to providing a level playing field, a stable policy environment, secure property rights, basic infrastructure, education, and credit systems, then leave the business of business to private entrepreneurs (Donor Committee 2001). Others suggest that equity, environmental concerns, and even maintenance of competitive advantage mandate a more interventionist stance in order to stimulate local nonfarm growth in which the poor may participate (Porter 1998; Meyer-Stamer 2002).

Governments have adopted highly variable policy stances, and many have changed course substantially over time. The rapid rural nonfarm growth in Taiwan and recently in mainland China have resulted from highly directed government involvement in credit allocation and regulation. The impressive growth in Chilean agribusiness in recent decades has involved a close private-public partnership to make the nation globally competitive in export agriculture. The

36. See, for example, Dichter (1986), Women's World Banking (1994), and Snodgrass and Packard Winkler (2004).

37. Dichter (1986), Islam (1987b), Dawson (1990), Grant (1992a), Women's World Banking (1994), Chen (1996), Tacoli (1998), Reardon and Berdegúe (2002), Snodgrass and Packard Winkler (2004).

enormous equity implications of globalization, coupled with the experience of agribusiness, small enterprise, and local economic development efforts, suggest that equitable growth in the RNFE will, at the very least, require some sort of public role in facilitating access, grades and standards, and contract laws that will enable small rural producers to link up commercially with the large firms that increasingly dominate agroprocessing and marketing in the developing world. Indeed, many of the most interesting tools from the three nonpolicy schools involve experiments with ways of facilitating commercial supply chain linkages. Even members of the laissez-faire policy school see a role for temporary public subsidies to facilitate these commercial business linkages (Donor Committee 2001).

Intersections

In general, thinking and practice among these diverse strategic groups have evolved in sweeping parallel movements. At an operational level, several converging tendencies have emerged, particularly since the early 1990s.

- *Scaling back.* Small enterprise promotion witnessed a paradigm shift, migrating from the provision of comprehensive, highly integrated support packages to minimalist programs aimed at supplying only one or a few missing ingredients (Figure 12.1). Regional development efforts have similarly scaled back their integrated approaches to focus on smaller, local government-based efforts. Pervasive policy controls and protections in India and East Asia have given way to more laissez-faire policy regimes. Declining government and donor resources have forced a new minimalism among interveners.
- *Promoting private sector involvement.* From direct provision by government or project entities, the small enterprise promoters have increasingly moved toward facilitating commercial business linkages to promote private sector supply of key marketing and technical support. In the agribusiness camp, large private firms have seized the initiative as key shapers of rural nonfarm opportunity. Liberalization has meant that government authorities have ceded terrain to the private sector as well.
- *Working with systems rather than individual firms.* From strategies dealing with individual firms one on one, efforts have turned to system-level interventions, such as policies or intervention via large firms, that can affect multitudes of rural enterprises at a single stroke. Interest in value chains, supply chains, subsectors, and clusters cuts across all four strategic groups.
- *Renewing focus on the policy environment.* In concert with increased liberalization, all groups have come to recognize the importance of the broader policy environment as a key determinant of the success of their efforts.

TABLE 12.2 Classification of interventions for promoting rural nonfarm activity

Decisions and interventions	Demand stimulus for rural nonfarm goods and services	Supply-side interventions
System-level interventions (multiple-firm impact)		
1. Policies (macro, sectoral, and commodity-specific)	Trade policies affecting competitive imports Pro-agricultural policies Government procurement	Macro policies affecting input costs and output prices (interest rates, labor laws, tariffs, taxes) Business regulations affecting competition, registration, and contract enforcement Subsector-specific policies (on licensing, taxation, subsidies, zoning, building codes, health codes, product grades and standards)
2. Public investments		Rural infrastructure (roads, electricity, communications) Rural markets Rural town infrastructure Industrial parks and estates Credit institutions Education
3. Large-firm intermediaries (subsector-, cluster-, supply chain-specific)	Export promotion Marketing linkages (spot markets, subcontracting)	Supplier credits Business linkages supplying technical and management assistance
Direct assistance to individual firms (firm-specific)		
4. Credit		Capital Credit Subsidies Facilities rental

(continued)

TABLE 12.2 *Continued*

Decisions and interventions	Demand stimulus for rural nonfarm goods and services	Supply-side interventions
5. Business development services	Marketing assistance Business linkages	Technology research and extension Management Entrepreneurship screening and training Management training and advice Labor Technical training Raw materials Bulk purchasing

The wide variety of economic circumstances prevailing in rural areas has led to a correspondingly broad range of interventions and assortment of tools (Table 12.2). Given the considerable volume of funds expended on rural and rural nonfarm promotion efforts over the past several decades, governments wish to know which combinations of tools have proven most effective and in what circumstances.

Measuring Impact and Cost-Effectiveness

The Availability of Evaluations

Evaluation is not a glamorous business. It frequently proves hot, painstaking, technically difficult, and thankless—a good way to make enemies. The beleaguered evaluator attracts criticism from all sides. And indeed it is easy to find fault. Control groups often refuse to cooperate. Limited budgets prevent large samples or extensive site visits. Project managers who pour their hearts and souls into project start-up and successfully pilot their institutions through inevitably treacherous waters find glib outsiders with designer sunglasses reviewing their efforts an unwelcome intrusion. Certainly no agency wants its star project plucked from the firmament by an unflattering evaluation.

Laboring on in spite of these difficulties, a cadre of heroic evaluators has persisted in the daunting but necessary effort of scrutinizing impacts and costs. In the small enterprise literature,³⁸ many have labored to improve evaluation

38. Harper (1979, 1988), Kilby (1979), Goldmark and Rosengard (1985), Kilby and D’Zmura (1985), Hossain (1988a), Webster (1989), Bolnick and Nelson (1990), Grant (1993), Gaile and Foster (1996), Hulme and Mosely (1996), Hyman and Dearden (1996), Pitt and Khandker (1996,

methods and to gain a better understanding of what interventions work and why. In the agricultural marketing and agribusiness world, impact evaluations prove more elusive, in part because of the high cost and in part because much of this work remains outside the public domain, in the hands of the large agribusiness firms that undertake the investigations and subsequent interventions. A series of recent and ongoing efforts aims to fill the gap in this increasingly important arena.³⁹ IRD efforts have received considerable scrutiny, most often well after the fact.⁴⁰ The newer generation of decentralization, territorial development, and local economic development, however, has yet to produce quantitative measures of impact and cost. Policy impact and assessment of the returns to investment in public infrastructure remain fundamentally important issues that have been addressed earlier, in Chapter 11. Therefore, the discussion here focuses on findings in the other three branches of rural nonfarm promotion.

How Representative Is the Existing Body of Evaluations?

No government or agency offers up its calamities for public scrutiny. So the roster from which evaluators draw is almost certainly biased in favor of the better performers.⁴¹ Once completed, evaluations that prove flattering find their way into multiple copies and fancy fonts, while the less dithyrambic remain buried in single mimeographed copies far from the scrutiny of the outside world. Compounding this natural bias, many reviewers readily acknowledge that they have explicitly sought out better performers in order to learn from their success.⁴²

An Asian bias also permeates much of the evaluation literature. A preponderance of infrastructure evaluations has focused on the two large South Asian countries of Bangladesh and India. Similarly, Sebstad and Chen's (1996) review of 32 small enterprise credit evaluations finds that over half of the country-specific cases came from Asia. In fact, Bangladesh alone has hosted six major impact studies since 1992. Though Bangladesh remains an inviting target for evaluators because of its massive programming variety and scale, its disproportionate representation in the evaluation literature leads one to wonder just how generalizable the results may be. Indeed the very particularities that make it a popular hunting ground for interveners and evaluators may make transfer to other settings problematic (Webster and Fidler 1996).

1998), Sebstad and Chen (1996), Webster and Fidler (1996), Webster, Riopelle, and Chidzero (1996), Harper and Finnegan (1998), McVay (1999), Morduch (1999a), Townsend and Yaron (2001), Dunn (2002), Kapila and Mead (2002), Khandker (2005), Armendáriz de Aghion and Morduch (2005).

39. See Berdegué (2001), Kapila and Mead (2002), and Weatherspoon and Reardon (2003).

40. See Ruttan (1975, 1984), de Janvry (1981), Holdcroft (1984), USAID (1987), World Bank (1987), Donaldson (1993), and Tendler (1993).

41. Several reviewers, including Snodgrass and Biggs (1996), underscore this point.

42. See, for example, Grant (1993), Tendler (1993), Gurund et al. (1994), Gaile and Foster (1996), and Webster and Fidler (1996).

Methodological Difficulties in Measuring Impact

A thicket of difficulties confronts evaluators as they seek to assess the impact of various interventions.⁴³ First are the considerable practical and logistic difficulties in obtaining accurate data on rural nonfarm activity. Enterprise censuses rarely exist to facilitate statistical sampling (see Chapter 5). The businesses themselves often operate seasonally. Many are dispersed, mobile, and small-scale, effectively invisible to all but the most relentless and resourceful interviewers. Most fail to maintain accurate accounts, so interviewers must depend on the goodwill and recall of the respondents.

Fungibility of enterprise assets has proven a problem, particularly in small enterprise credit evaluations. Beneficiaries use borrowed funds for a wide variety of purposes other than financing their nonfarm enterprise (see, for example, Gurand et al. 1994 and Gaile and Foster 1996). Therefore, evaluations that focus on the assisted enterprise as the unit of analysis fail to capture the full benefits (or the full costs) accruing to the assisted household. In response to this problem, many evaluators now look at program impact in the context of the overall household. This increases both data requirements and analytical complexity as analysts seek to sort out the diverse interactions and causations in this broader household setting.

A related challenge concerns the difficulty of providing a satisfactory definition of the “project” under review. Often a particular intervention builds on earlier work by the same organization. Sometimes a new undertaking involves substantial early experimentation as a variety of new and different approaches are tried, rejected, or modified. Particularly in more complex undertakings, the required interventions often evolve over time as particular blockages are identified and dealt with, sometimes through the establishment of private, for-profit enterprises supplying particular services facilitated by the project. In these instances, there is no clear agreement as to appropriate ways of drawing a line around a particular project to be evaluated (Kapila and Mead 2002). Nor do standards exist for projecting the future time path of benefits and costs, though these assumptions often determine the final outcomes in benefit-cost evaluations.

Once these practical difficulties are resolved, the evaluator must grapple with the thorny analytical problem of the counterfactual, determining the state of the world “without” the project intervention. Selection bias among locations and participants, program dropouts, and potential displacement of unassisted firms by those that receive project support all complicate determination of how the affected household would have fared without assistance. Armendáriz de

43. For more detailed discussion of these and a range further methodological difficulties, see David and Meyer (1980), Kilby and D’Zmura (1985), Barnes (1996), Sebstad and Chen (1996), Khandker (1998), Coleman (1999), Hulme (2000), Woller (2000), Karlan (2001), Dunn (2002), Meyer (2002), and Armendáriz de Aghion and Morduch (2005).

Aghion and Morduch (2005) provide a useful general review of evaluation strategies for overcoming these difficulties.

Measuring Costs

Impact measurement has attracted the most attention, given the many difficulties it poses. Consequently, some analysts in recent years have tended to ignore cost issues. As a result, they are unable to compare benefits to costs. Evaluators of BDS and financial service programs used to measure benefits and costs. The BDS evaluations often still do (Kapila and Mead 2002). However, with several notable exceptions, most credit evaluations nowadays fail to compare benefits to costs.⁴⁴ Instead, many argue that because microfinance interventions aim to create self-sustaining financial institutions, measurement of program costs is not necessary. As a result, for the most common financial interventions we know more about impact than cost-effectiveness (Armendáriz de Aghion and Morduch 2005).

The Record on Impact and Costs

In the face of much variation, a gentle sifting of the evaluation literature does suggest some general conclusions. For greater detail, the reader will benefit from several reviews cited below.

Small Enterprise Promotion

INTEGRATED ESTATES. The integrated hothouse industrial estates are widely viewed as colossal failures—at the very least in their rural incarnations. A virtual absence of careful benefit-cost evaluations offers the surest sign that the heavy cost of these programs has overwhelmed any income gains to the economy.⁴⁵ Most field practitioners doubt that the model was ever cost-effective, even in the urban settings for which it was originally designed.⁴⁶ In rural areas, costs have proven higher and benefits slimmer. Conceived in an era of heavy subsidies to medium-scale and large industries, this lavish all-in-one combination package has proven a particularly costly and ineffective model when transplanted to smaller enterprises and to rural zones.

MINIMALIST CREDIT. Most voluminous by far, the growing evaluation literature on minimalist credit programs bespeaks a confidence on the part of the legion of devoted practitioners that promote these programs. Outreach has

44. Exceptions to this rule include Townsend and Yaron (2001), Schreiner (2003), and Khandker (2005).

45. In one memorable speech, in 1984, an African head of state referred to the operators of that country's all-purpose industrial estate as "undertakers."

46. Sanghvi (1975), Somasekhara (1975), Livingstone (1977), UNIDO (1978), Sandesara (1980), Kilby (1982), Kashyap (1988), Chadha (1993), Lee and Suh (1998).

proven impressive, with thousands of microfinance institutions worldwide lending to over 20 million households, many of the largest of these in rural areas of Asia (Meyer and Nagarajan 2000; Lapenu and Zeller 2001). Financial sustainability, however, has proven more elusive. In spite of serious efforts at covering costs, the majority of microfinance institutions still depend on government and donor subsidies for their existence (Meyer 2002; Armendáriz de Aghion and Morduch 2005). Chapter 11 discusses these two dimensions of microfinance performance in greater detail, while the ensuing discussion focuses on client impact, the third dimension of credit program impact (Zeller and Meyer 2002).

At the client level, among the 60-plus credit projects reviewed by Kilby and D'Zmura (1985), Grant (1993), Hulme and Mosely (1996), Sebstad and Chen (1996), Webster and Fidler (1996), Johnson and Rogaly (1997), Wright (2000), Morduch and Haley (2002), and Goldberg (2005), most documented some increase in income for the majority of assisted firms. At the household level, following an injection of no-frills credit, most studies document income increases as well, though the impact varies by gender of entrepreneur, location, and activity. Empowerment of women, measured by evaluators in various ways, typically improves in tandem with income measures, while measures of infant nutrition and educational access prove mixed.

Though generally flattering,⁴⁷ these results likely overstate the impact of credit programs because of chronic difficulties in finding suitable control groups and evaluation methods that satisfactorily address persistent problems of displacement, dropouts, and selection bias in favor of higher-productivity locations and more dynamic assisted enterprises.⁴⁸ Consider the calculation indicating that among borrowers from the BRI-UD microcredit program in Indonesia, employment doubled, while income grew at an annual rate of 21 percent per year compared to only 4 percent in the general rural population. As the authors of this study note, absence of a well-matched control group cautions restraint in interpreting these results. The comparison group used in this calculation included not a matched set of comparable enterprises, but all rural households, including farmers, nonfarmers, and the landless (Hulme and Mosely 1996, Table 11.7). Even sophisticated econometric analyses with large sample sizes and careful attention to these issues are not immune to selection bias problems,

47. Note that traditional small and medium-scale enterprise lending through development banks has not fared so well. For this reason, agencies such as the World Bank have explicitly moved away from small and medium-scale enterprise lending in favor of increased minimalist, micro-enterprise credit schemes (Webster, Riopelle, and Chidzero 1996).

48. On the displacement problem, see Hossain (1988a), Osmani (1989), and Dawson and Jeans (1997). On selection bias, see discussions by Sebstad and Chen (1996), Pitt and Khandker (1998), and Morduch (1999a). On the dropout issue, see Nagarajan (2001), Armendáriz de Aghion and Morduch (2005), and Alexander-Tedeschi and Karlan (2006).

as debates over the impact of Bangladesh's Grameen Bank underscore (Pitt and Khandker 1998; Morduch 1999a,b). As one recent review has concluded, "Relatively few rigorous studies of impacts have been completed, and the evidence on statistical impacts has been mixed so far" (Armendáriz de Aghion and Morduch 2005).

Emerging evidence on dropout rates suggests that desertions from microfinance institutions (MFIs) may be quite large. Nagarajan's (2001) review of 33 MFIs indicates that annual dropout rates among Asian institutions average over 25 percent of borrowers. If so, this phenomenon bears serious investigation. Why are so many leaving if microfinance is producing generally positive benefits for clients? And if impact studies fail to account for these dropouts, are they not in danger of overstating benefits (Meyer 2002)?

In spite of these measurement difficulties, important regional differences seem to emerge consistently from these results. In general, the more numerous Asian studies of microfinance project a greater impact on the income and empowerment of women than do the African studies.⁴⁹ Despite roughly comparable portfolio risks (Barres 2002), loan repayment in Africa averages only 60 percent, far lower than the rate of over 90 percent cited in most Asian studies (Webster, Riopelle, and Chidzero 1997). Given Africa's less rigid and hierarchical social structure, as well as its more even access to land, widespread availability of informal rotating credit societies,⁵⁰ and more widespread economic activity of women to begin with, it is not surprising that empowerment gains there turn out to be far less than in Asia. Likewise, many of the operational rules for client selection and close control of repayments have emerged in the densely populated zones where pioneer programs emerged, in urban Latin America and in rural Asia. In Africa, where population density is far lower and client contact costs are consequently higher, these standard operating systems have proven less effective.

Across income groups, distributional analyses suggest that microcredit proves most adept at improving incomes for the better-off poor, those just below the poverty line, rather than for the very poorest. Though the average profits of assisted enterprises typically increase, a small proportion of larger enterprises accounts for the bulk of this growth, while the majority grow only a little (Sebsted and Chen 1996). While loans targeted at the very poor yield limited benefits, those that target the better off achieve a greater impact (Hulme and Mosely 1996). Some evidence even suggests that the very poorest, who lack basic skills and investment opportunities, may emerge more indebted but little better off.⁵¹

49. Abugre (1994), Sebstad and Chen (1996), Webster, Riopelle, and Chidzero (1996), Buckley (1997).

50. In contrast, Africa appears to enjoy less informal trade credit, perhaps because of less landlessness, lower credit demand, and lower input intensity in agriculture.

51. Buckley (1997), Coleman (1999), Meyer (2002).

Several gaps remain. Microfinance has not taught us very much about how to successfully lend to small and medium-scale businesses whose sole source of income for loan repayment is derived from the business rather than from the household. Microfinance has demonstrated how lending organizations can be created to serve the demand for working capital by microfirms, especially in trading. But it has learned little about how to make longer-term loans to finance the fixed capital investments of larger-scale enterprises. Most crucially for those interested in the RNFE, microcredit has not significantly advanced our understanding of how to lend successfully to farm and nonfarm enterprises in rural areas where population densities are lower and where the seasonality in cash flows, lending costs, and risks typically prove greater.

From this vast body of reviews, a series of best practice rules of thumb has emerged for streamlining and honing effective interventions.⁵² These have proven valuable in transferring lessons of successful programs and enabling widespread replication throughout the world.

- *Charge interest rates high enough to cover costs.* The poor consistently demonstrate their willingness to pay market interest rates for convenient lending services. These prove necessary to improve prospects for institutional sustainability.
- *Slash costs.* Viable rural financial institutions typically reduce administrative overhead to an absolute minimum. This often involves cutting out technical or management advice that adds few benefits but raises program costs considerably.
- *Motivate repayments.* Though some microenterprise institutions (such as BRI) require collateral, most motivate repayment through a variety of other techniques: group guarantees, escalating repeat loans, short-term loans, and repayment schedules that call for frequent (often weekly) payments.
- *Include savings and other services.* Savings services often attract more clients than credit services, particularly among the poor. They also provide the own-source funds necessary for the creation of self-sustaining financial institutions independent of the current large government subsidies. Some microfinance institutions offer remittance transfer services in an effort to tap into a market valued in billions of dollars annually.
- *Tailor programs to each locale.* Given a wide diversity of existing informal credit systems and a diversity of options for microcredit lending programs, many practitioners counsel against blind replication of models imported from elsewhere.⁵³

52. See Otero and Rhyne (1994), CDASED (1995), Christen et al. (1995), Webster and Fidler (1996), Yaron et al. (1997), Donor Committee (2001), Von Pischke (2002), CGAP / World Bank (2004), and Armendáriz de Aghion and Morduch (2005).

53. Harper (1988), Hulme and Mosely (1996), Wakefield and Duval (1996), Johnson and Rogaly (1997), Morduch (2000).

While many of the latest generation of evaluations seek to improve the measurement of program benefits, few proceed to compare these benefits with program costs. Unlike the early generation of studies, current credit evaluations rarely compare benefits with costs.⁵⁴ As is the case with many other categories of intervention, the lack of cost comparisons in the face of large continuing subsidies has seriously compromised efforts to determine the cost-effectiveness of these investments. Across the board, future evaluations need not only to improve their measurement of program benefits but also to compare these benefits to the costs of public subsidies incurred.

BUSINESS DEVELOPMENT SERVICES. Efforts at delivering nonfinancial services to rural nonfarm enterprises have proven more heterogeneous and problematic and have produced decidedly less flattering results than programs delivering financial services.⁵⁵ Reviews of 34 technical, management, and policy assistance projects indicate that slightly over half generated more income benefits than costs, while the remaining half of benefit/cost ratios hovered around 1 or below.⁵⁶ Many hundreds of other project assessments failed to report both benefits and costs, suggesting a probable reporting bias in favor of the better performers.

Like microfinance studies, many of these studies confront serious methodological problems. In addition to the imponderables involved in projecting future benefit streams, analysts frequently depend on “before and after” comparisons rather than control groups. Even studies with control groups frequently remain vulnerable to problems of selection bias. Difficulties in projecting future production flows among beneficiary firms give rise to subjective judgments on the part of evaluators and render these projections susceptible to possible upward bias if forecasted earnings prove overly optimistic.

Efforts at fostering commercially sustainable private sector delivery of business services remain in their infancy. As several prominent BDS practitioners have noted, reliance on purely private sector commercial service delivery will likely never fully address the needs of the poor, particularly in underserved rural markets (Kapila and Mead 2002). A review of 16 different BDS projects reports some effort at cost recovery in two-thirds of the projects. A quarter recover over 60 percent of all costs, while 13 percent achieve 100 percent cost recovery (Goldmark, Berte, and Campos 1997). In settings where large and small firms share common commercial interests, a series of interest-

54. As an example of the early generation of credit studies, see Kilby and D’Zmura (1985). For an assessment of the more recent literature, see Armendáriz de Aghion and Morduch (2005).

55. For reviews of a broad range of enterprise promotion efforts, see Snodgrass and Biggs (1996), Harper and Finnegan (1998), Levitsky (2000), Escobar, Reardon, and Berdegue (2001), Kapila and Mead (2002), and Snodgrass and Packard Winkler (2004).

56. Kilby and Bangasser (1978), Haggblade (1982), Davies (1988), Malhotra and Santer (1994), Dawson and Jeans (1997), Nelson (1997), Harper and Finnegan (1998), Kapila and Mead (2002).

ing experiments with vouchers and promotion of commercial business linkages is under way.⁵⁷ Where feasible, development of these commercial linkages can generate financially sustainable business relationships, sometimes on a very large scale. Efforts with treadle pump manufacturers in Bangladesh, for example, have resulted in a commercially viable network of 84 pump manufacturers and nearly 1,000 distributors that together have profitably supplied over 1.3 million treadle pumps to rural Bangladeshi households since 1985 (Shah et al. 2000).

As in the case of the credit programs, a series of summaries and best practice reviews has consolidated results of the large body of evaluations of business development efforts.⁵⁸ Taken together, this evidence suggests the following broad generalizations about current best practices:

- *Focus on clusters of like enterprises rather than on individual firms.* Because rural enterprises are often small, interventions must affect many firms simultaneously to generate sufficient income growth to defray the costs of the intervention. In general, focusing on a functionally related network of firms—referred to variously as value chains, supply chains, clusters, or subsectors—helps to identify systemic opportunities for assisting many like firms at once.⁵⁹ For this reason, the strongest performers among the projects reviewed—such as the 20 to 25 percent internal rate of return to rattan export promotion in Indonesia, the 3.6 benefit-cost ratio for improved poultry stock and veterinary services in Bangladesh, and the 5.6 benefit-cost ratio for ornamental fish marketing in Sri Lanka—all focused on systemic interventions in specific commodity subsectors.⁶⁰ Tandler's (1989, 1034) review of six well-performing microenterprise promotion projects likewise concludes: "All the better-performing organizations started out with a narrow focus. They concentrated on a particular task . . . or on workers in a particular trade, sector or income-earning activity." A decade and a half later, Snodgrass and Packard Winkler (2004, 60) reached a similar conclusion after reviewing 42 donor-funded enterprise development projects, finding that "the cluster approach creates greater leverage and systemic reform in the business environment and market institutions than direct firm-level assistance."

57. Mead (1994b), Goldmark, Berte, and Campos (1997), Riley and Steel (2000).

58. This section draws heavily on reviews by Boomgard (1989), Grant (1993), Webster and Fidler (1996), Donor Committee (1997, 2001), IDB (1997), Levitsky (2000), Escobar, Reardon, and Berdegué (2001), Kapila and Mead (2002), and Snodgrass and Packard Winkler (2004).

59. See Boomgard et al. (1992), Grant (1993), Malhotra and Santer (1994), Chen (1996), Humphrey and Schmitz (1996), Nelson (1997), Porter (1998), Schmitz and Nadvi (1999), Dawson et al. (2000), Lusby and Panliburton (2002), and Snodgrass and Packard Winkler (2004).

60. Davies (1988), Malhotra and Santer (1994), Kapila and Mead (2002).

- *Focus on a few key missing ingredients.* Cost containment remains a central challenge in moving from high-density urban settings to rural areas. In pursuit of streamlined, low-fat budgets, both credit and business development services have increasingly specialized, focusing on one or a few missing elements that prove key to unblocking opportunities for aggregate nonfarm enterprise growth in a specific setting. In their purest form, these efforts focus on what Kilby (1979) has dubbed the “single missing ingredient.” Increasingly, business development efforts have started with a narrow focus, though many have found it necessary to modify their point of intervention as systems evolve and new constraints become binding (Kapila and Mead 2002). As an early review of 32 microenterprise support projects concludes, “The evidence in the sample neither rejects nor supports the ‘single missing ingredient’ hypothesis about technical assistance. The successful technical assistance programs, however, point to the need to accurately identify the *essential missing ingredients* and to deal with them in an effective and efficient manner” (Boomgard 1989, 75).
- *Reinforce growing markets and market access.* In spite of past suspicions of unregulated markets, most governments today recognize that sustainable development must take account of market forces and that growing markets constitute a prerequisite for growth of the RNFE. Some promotional activities have focused on helping such enterprises participate more actively in dynamic market segments both in rural areas and in urban and export markets (Millard 1996; McVay 1999). Similar opportunities exist for helping small enterprises to supply goods and services to the government (Tendler and Amorim 1996). A number of projects have facilitated the emergence of for-profit enterprises to undertake particular production, trading, or brokering functions in expanding subsectors (Kapila and Mead 2002).
- *Treat firms as clients.* Increasingly, organizations promoting rural enterprise development identify valued BDS and charge fees for these services.⁶¹ In this spirit, Zimbabwe’s Improve Your Business program charged full cost for its training services (Harper and Finnegan 1998). A handful of studies has begun to systematically investigate existing privately met demand for BDS (Lusby and Panliburton 2002). In the same way that moneylenders and informal financial markets inspired microcredit practice, reviews of existing business services demanded and supplied (apprenticeship training, management assistance, and the provision of product quality and pricing information) aim to spark similar innovation in nonfinancial service delivery (Barton 1997). Recent work with training vouchers and

61. Barton (1997), Steel, Tanburn, and Hallberg (2000).

business linkages between firms of different sizes offers examples of efforts at facilitating private sector service delivery.⁶²

Agricultural Marketing and Agribusiness Promotion

Large private agribusiness firms govern many of the opportunities facing smaller, functionally related rural nonfarm businesses. They commission diagnostic assessments and implement many of the most important interventions affecting agricultural markets and agroprocessing in rural areas of the developing world. Yet because these analyses are proprietary, they remain outside the public domain. Even so, available anecdotal evidence suggests that their impact on smaller rural nonfarm firms is often considerable. Over the past several decades, the market dynamics triggered by large agribusiness firms have many times benefited smaller rural nonfarm firms. During the 1990s, export horticulture firms in Kenya and Costa Rica assisted tens of thousands of small growers to access these markets through the provision of inputs as well as technical and marketing assistance (Reardon and Berdegú 2002; Minot and Ngigi 2003). Yet in other instances, large agribusiness firms stifle opportunities for small rural firms, either through outright competition or via the imposition of quantity and consistency standards that small firms find difficult to attain. Across Latin America, the growth of supermarkets has driven tens of thousands of small retailers into bankruptcy (see Chapter 9). Similarly, the growth of supermarket chains in Brazil, Argentina, and Chile has imposed quantity and standardization requirements that rural dairies have found difficult to meet, leading to thousands of bankruptcies among smaller dairies over the past decade.⁶³ Sometimes small players can respond successfully, as in the spirited rejoinder by a local trader in Mazabuka, Zambia, who effectively countered the arrival of South African Shoprite by consolidating his small shops into a sleek, modern supermarket. Similarly, the Parranque cooperative in Chile enables small farmers to band together to meet the quantity and quality standards required by large supermarkets (Berdegú 2001). While legions of small players submerge, some do successfully adjust and adapt. Survival requires rapid and significant adjustment to new market conditions.

With public sector interventions to improve agricultural markets, rigorous benefit-cost comparisons remain elusive. While costs are easy to measure, benefits prove more difficult. The introduction of grades and standards frequently improves market system performance and growth, but in ways that are difficult to quantify. New wholesale markets may relieve urban congestion, reduce

62. Goldmark, Berte, and Campos (1997), Grierson, Mead, and Moyo (1997), McVay (1999), Riley and Steel (2000), Lusby and Panlibuton (2002), Bear, Gibson, and Hitchins (2003), Hitchins, Elliot, and Gibson (2004).

63. Gutman (1999), Jank, Farina, and Galan (1999), Dirven (2001).

pollution, and improve public health; but again, to our knowledge, these benefits have rarely been quantified. A welter of market-oriented interventions by governments and NGOs has yielded only a trickle of careful empirical impact analyses.

In spite of a dearth of rigorous benefit-cost analyses,⁶⁴ a number of reviews have attempted to summarize lessons learned from public sector experience in diagnosing and improving agricultural marketing systems in the developing world.⁶⁵ Drawing on this body of work, several general conclusions emerge for guiding future work:

- *Develop a new role for government.* Large private firms have partially usurped many classic public roles, including the provision of market infrastructure and the establishment of key market institutions such as food safety standards, grades, and regulations. However, public intervention remains essential in reviewing, endorsing, and standardizing food safety laws and making them widely available to potential food industry participants. Likewise, it remains necessary for public intervention to fill in gaps in market infrastructure that will enable access by key groups of local suppliers.
- *Help small players adjust.* To survive in rapidly changing rural nonfarm supply chains, small players must adapt, often quickly, or find alternate livelihoods. New organizational and logistic arrangements imposed by large exporters and retailers require adjustments in production methods, quantity requirements, grading, and contracting that weaker members find difficult to fathom, finance, and execute. Sometimes public or collective action can remedy asymmetries in power and information. Collective organization and negotiation, punctual training, or bulk facilities may be necessary to enable them to respond rapidly and flexibly to these new opportunities.⁶⁶
- *Focus on supply chains in specific commodity subsectors.* This leads to opportunities for interventions that assist many like firms simultaneously. Whether in the form of policy change, provision of key infrastructure,

64. Welcome exceptions include Berdegué (2001) and Kapila and Mead (2002).

65. Harrison et al. (1975), Riley and Weber (1983), Shaffer et al. (1985), Abbott (1986), Mitterdorff (1986), Maxwell and Holtzman (1995), Meyer and Larson (1997), Mooney, Stathacos, and Adoum (1998), Giovannucci (2001), Giovannucci and Reardon (2001), Lamb and Brower (2001), Kapila and Mead (2002), Reardon and Berdegué (2002), Van Roekel et al. (2002), Jaffee et al. (2003).

66. These efforts involve thorny political economy issues, which are addressed most directly in the growing literature on global value chains. See, for example, Kaplinsky (2000), Gereffi and Kaplinsky (2001), Vorley (2001), Humphrey and Schmitz (2002), Kaplinsky and Morris (2003), and Giuliani, Pietrobelli, and Rabellotti (2005).

organizational improvements, or introduction of grades and standards, supply chain interventions typically benefit many similar firms at one stroke. As a recent agribusiness review concludes, “AMIS II [the Agribusiness and Marketing Improvement Strategies Project] achieved the most success when its activities had a narrower, as opposed to broader, commodity or industry and geographic focus” (Mooney, Stathacos, and Adoum 1998, 36). Many practitioners agree that focusing promotional efforts on clusters of related firms offers the greatest prospects for successfully assisting many firms at once.

- *Promote collective action, private and public.* Market improvement often requires provision of public goods (roads and physical facilities) as well as behavioral changes requiring adoption and enforcement of new rules, standards, and systems of collective action. Often a mix of public action and collective private intervention is required. Marketing associations, cooperatives, or even influential private firms operating as channel leaders can serve as catalysts of change. In instances in which oligopsony emerges, public or collective action may be necessary to improve the bargaining power of weaker elements in the system, a particularly important consideration in the current poverty-oriented wave of interest in rural nonfarm business development.
- *Minimize the costs of physical infrastructure.* In many cases, physical infrastructure has been overbuilt and underused, particularly when governments and donors are involved. Rigorous comparison of alternatives will often reveal less costly options. In some cases, strategic upgrading of bottlenecks (often bridges or culverts) in rural road systems may obviate the need for more costly cold storage facilities. Incremental investments often prove most prudent. The association of private with public financing proves therapeutic in keeping facilities costs within reason.
- *Separate technical from financial assistance.* Business promotion via agribusiness development centers (ADCs) has produced mixed results (Lamb and Brower 2001; Jaffee et al. 2003). Though some report benefit-cost ratios as high as 5 to 1, detailed descriptions of methods, data, and “without project” baselines remain sketchy. Some operate like miniature India model “one-stop shops” with full business promotion services including technical, marketing, managerial, and financial services. Others offer more streamlined services and aim to play catalytic and facilitating roles. In general, the more costly variants have proven least cost-effective. ADCs have sometimes effectively contributed to market development, particularly by helping domestic firms to identify and land export contracts that expand market opportunities at home. The ADC experience, like much of the small enterprise literature, suggests that promoters should separate technical from financial assistance in order to avoid institutional conflicts

of interest and to enable an independent financial appraisal as a check on the feasibility of each proposed commercial activity.⁶⁷

Regional Development.

For a decade and a half, beginning in the early 1970s, integrated rural development (IRD) projects held the limelight in development circles. Governments and donors spent billions of dollars on these ambitious, multisectoral regional development efforts. All major donors, including the Scandinavians, Europeans, and major development foundations boarded the bandwagon. Then, after 15 years of intense IRD activity, governments and donors largely abandoned this favored child. Some regional development authorities continue to operate, though at very low levels compared to the heyday of the 1970s. Most no longer exist or have been folded into line ministries or local government authorities. In the end, governments and donors alike largely voted with their feet to exit these ambitious IRD efforts. Given the scale of the investments poured into these activities, IRD has attracted a series of major reviews on which the following summary is largely based.⁶⁸

Why did the IRD efforts generally fail to generate sustainable regional development? Participants, financial supporters, and reviewers point to a series of common problems. First, these efforts proved far too complex to manage. Myriad new administrative relationships led to conflict, infighting, and coordination difficulties across ministries and other executing agencies. Second, spending on social services and infrastructure often swamped local resources. In the widely touted Aga Khan IRD program in rural Pakistan, project expenditures stood at \$500 per household (World Bank 1990). Without commensurate increases in new sources of local revenue, rural authorities could sustain the mandated social expenditures only with steady infusions of outside funding. Third, and closely related, was the importance of a core agricultural production package. The programs that performed best offered a strong agricultural technology package appropriate to farmers that effectively stimulated broad agricultural growth. The Puebla Project, an exclusively agricultural project with strong technical support from CIMMYT (Centro Internacional de Mejoramiento de Maíz y Trigo), generated an internal rate of return of 14 percent (de Janvry 1981). Yet many of the other programs lacked a viable agricultural technology. This resulted in part from a fourth common problem, the pressure to scale up rapidly from successful pilot regions to other locations where circumstances differed, often substantially. Many pilot activities functioned well because they benefited from intensive investment in location-specific diagnostics, data, and manpower

67. See, for example, Webster and Fidler (1996), Goldmark, Berte, and Campos (1997), and Donor Committee (2001).

68. Ruttan (1975, 1984), Holdercroft (1978, 1984), USAID (1987), World Bank (1987), Tendler (1993).

recruitment. Subsequent replication in new and different regions proved difficult given the differing circumstances into which the systems were transplanted. Without the time and resources necessary for tailoring schemes to new locations, the rapid expansion of IRD became little more than the imposition of an imported blueprint rather than the initiation of a process for mobilizing local resources and capitalizing on opportunities unique to each locale. Finally, central governments frequently proved reluctant to devolve political or financial control to local governments. The imposition of new obligations without corresponding political authority or fiscal resources led to inherently unsustainable systems that rapidly collapsed following the withdrawal of outside funding.

Against this general backdrop, consistent differences emerge across geographic regions. A review of 400 World Bank IRD projects found the highest share of satisfactory programs in Asia, with much lower success rates in Africa and Latin America (Donaldson 1993). A similar finding, echoed in USAID's in-house review, found the lowest success rates in Africa, a finding attributed to the general difficulties in finding improved agricultural technologies in rain-fed agriculture (USAID 1987).

In an effort to identify positive lessons from this experience, the World Bank commissioned a review of 22 rural development projects in Northeast Brazil (Tendler 1993). While these projects had generally failed to meet overall performance targets, many enjoyed moments of glory, episodes or particular activities in which they became noticeably effective contributors to rural development. Such successful episodes generally involved a flexible response by project managers to very specific problems or opportunities with built-in incentives and outside pressures, often from local actors or organizations that were keenly interested in the performance of the project. In several cases, these involved effective responses to agricultural diseases, widely perceived threats to rural welfare that readily mobilized local attention. Often these efforts involved streamlining and simplifying program activities to concentrate on one or two signature activities that served as the "locomotive" driving the rest of the project" (Tendler 1993, 14).

At least three positive prescriptions emerge from the early IRD experience. In general, they parallel findings in the small enterprise and agricultural marketing literature.

- *Ensure sound macro policy.* A favorable macro policy environment is essential, particularly one that provides adequate incentives for agriculture and rural businesses.
- *Center income-generating efforts around an improved agricultural technology.* An improved agricultural technology proves a necessary motor for rural and rural nonfarm growth. The absence or malfunction of this motor frequently causes the rural economy to stall.
- *Focus on a few key interventions.* The programs that work best seem to be those that do a few things well. In spite of the intellectual attraction of the

systems perspective, in practice it proves difficult to juggle too many moving parts at once. Hence, streamlining and focusing on key opportunities or constraints seem to work best in rural nonfarm promotion and in rural development in general.

The new wave of local area and territorial development programs has not yet, to our knowledge, generated the track record necessary for quantitative evaluation of impact and cost. Nor has the more general literature on political, administrative, and fiscal decentralization empirically assessed the impact of local governance on rural nonfarm activity. Broad studies of the impact of decentralization on economic growth underscore the complexity of these relationships (Von Braun and Grote 2002; Enikolopov and Zhuravskaya 2003). Smatterings of indirect evidence suggest a possible link via local government's influence on rural infrastructure and agriculture, as in the Chinese example discussed in Chapter 13. One cross-country econometric study has found a strong relationship between fiscal decentralization and spending on infrastructure (Estache and Sinha 1995). Rural infrastructure, in turn, strongly affects agricultural growth,⁶⁹ which in turn stimulates rural nonfarm activity through a variety of growth linkages (Chapter 7). Though tentative and indirect, this evidence supports the notion that strengthening local governments could indeed contribute to building prosperous rural economies.

A new generation of practitioners has returned to local governments in the developing world with fresh optimism, new analytical tools, and a renewed conviction that improvements in local decisionmaking, administrative capacity, and financial authority can contribute to accelerated rural economic growth. Many of the more recent efforts have revolved around local allocation of social development funds, through which local leaders gain a greater say in identifying key interventions. Evidence to date suggests three principal requirements for effective decentralization in support of local economic development (Tacoli and Satterthwaite 2003):

- Clear devolution of decisionmaking authority from central to local governments
- Control of adequate financial resources at the local level
- Adequate local government staff capacity

Policies and Public Investments

Chapter 11 reviews available evidence on the impact of the policy and institutional environment on rural nonfarm activity. As that discussion emphasizes,

69. See, for example Barnes and Binswanger (1986), Binswanger, Khandker, and Rosenzweig (1989), Fan, Hazell, and Thorat (1999), Fan, Zhang, and Zhang (2002).

policies provide powerful levers for influencing the welfare of rural nonfarm enterprises. Wielded prudently, they can stimulate opportunities for many like firms at a single stroke. Wielded inadvertently, as they often are, they can stifle rural nonfarm activity instead. Getting the policy environment right enables rural households to apply their ingenuity to solve many rural development problems themselves. Yet getting it wrong can cripple them instead.

The Bottom Line

Opportunities and constraints in the RNFE vary enormously across locations and over time. The resulting diversity of situations has led to an extraordinary array of efforts on behalf of the RNFE. From this broad range of experience, several general principles emerge.

- *Policy interventions are most powerful.* Policy interventions typically offer the most powerful levers, for good or for ill. They affect a multitude of similar firms simultaneously. When carefully designed, they can benefit large numbers of firms at once. Experience suggests that both macro policies and highly tailored subsector-specific rules on grades, contracting, competition, and industry regulation can greatly improve prospects for equitable growth in specific rural nonfarm supply chains.
- *Minimize cost per beneficiary.* The experience of the past 50 years suggests a need to resist overbuilding. Multipurpose rural industrial estates, IRD projects, and overbuilt roads, banks, and marketing infrastructure have frequently led to inefficient public resource use. The most cost-effective inventions typically focus on specific activities and on the minimum elements necessary to effect change among large numbers of rural firms. Though interventions can be large in absolute scale, to be effective they must reduce per-firm costs to a bare minimum. Recent systematic efforts to partner with private firms and facilitate private sector delivery of key marketing, input supply, and credit functions stem from a desire to improve sustainability and reduce costs.
- *Leveraged interventions in specific supply chains yield greatest benefits.* Leverage vastly improves prospects for cost-effective intervention. To generate benefits in excess of program costs, efforts at rural nonfarm promotion need to focus on strategic interventions that will open up growth opportunities for large numbers of rural enterprises at once. Leveraged interventions—via policies, strategic injections of new technology, linkage to large firms, market development, improved supplier credit, or other system-level interventions—simultaneously reduce per-firm costs and increase aggregate impact. For this reason, system-level interventions, those that open up growth prospects for large numbers of firms at a single stroke, prove most cost-effective (Table 12.3).

TABLE 12.3 Cost-effectiveness of alternative interventions for promoting rural nonfarm activity

	Impact	Cost	Cost-effectiveness
System-level interventions (multiple-firm impact)			
1. Policies	High	Low	Very high
2. Public investments			
a. Physical infrastructure	High when appropriately sited	Variable	High when not overbuilt
b. Education	High	Moderate	High
c. Credit institutions	High	Often unmeasured	Rarely measured but potentially high
3. Large firm intermediaries	High	Low	High, but appropriate only when large and small firm interests coincide
Direct assistance to individual firms			
4. Credit	Moderate	Low, though often unmeasured	Rarely measured, though available indicators are moderately optimistic
5. Business development services			
a. To individual firms	Low	High	Low
b. Affecting many firms simultaneously	High	Variable, but low if focused on critical minimum constraints	Variable but potentially high

Future Directions

Key Interventions

Evidence overwhelmingly suggests that a favorable policy and institutional environment provides a necessary foundation for widespread rural nonfarm prosperity and growth. Yet alone, a favorable policy and institutional environment will generally prove insufficient to ensure equitable growth in RNFEs of the developing world during the first half of the twenty-first century. Rapid globalization and penetration of rural areas by large firms will require rapid adjustment by rural firms. Successful transition in the new RNFE will require development of marketing and input supply links with large firms. It will require grades, standards, and contracting enforcement as well as the assembly infrastructure necessary to connect dominant large firms with a multitude of smaller rural players. Huge disparities in asset distribution and access to public services risk trapping the poor in perennial backwaters of the rural economy. Sitting back contentedly in a neutral policy environment will most assuredly risk leaving the poor far behind in the rapid rural transformation now under way. To enable access by the poor, interveners will increasingly need to work with the private sector, particularly the large firms driving change in key commodity subsectors.

In the future, continued reliance on large-scale infusions of credit will prove inadequate in responding to new opportunities and constraints. Currently massive minimalist credit programs are perceived as the silver bullet in many host country and donor arsenals. Most major donors have jumped aboard this bandwagon, responding to the call from the 1997 Microcredit Summit for over \$20 billion in microenterprise lending to reach 100 million poor households over the ensuing 10 years (Microcredit Summit 1996). The United Nations has actively encouraged these efforts, declaring 2005 the U.N. Year of Microcredit. And in 2006, the Grameen Bank and its founder, Muhammad Yunus, received the Nobel Peace Prize for their efforts in launching the microcredit movement. The scale and enthusiasm of this wave of efforts have inspired a whole new cast of players, bringing new talent and energy to bear on behalf of the rural poor. As a result, many valuable lessons—on cost reduction, on emulating private sector firms offering similar services, and on the general principle of adopting systemic, institution-level interventions affecting many small firms at once—have come out of the minimalist credit model. This enthusiastic surge of activity has undoubtedly energized field workers and improved efforts at delivering non-financial services as well.

Even so, looking to the future we see clear limits to the purely finance-led growth strategy embedded in the minimalist credit model.⁷⁰ In increasingly

70. See Osmani (1989) for an early statement of this position.

saturated informal sector markets, the launching of thousands of additional entrants into labor-intensive, low-productivity activities seems more likely to result in income redistribution among the poor rather than in aggregate economic growth. Indeed, had the agricultural establishment depended solely on a massive infusion of rural credit in the 1960s, without improved agricultural technology, the world would never have seen a green revolution. As one major review of microcredit programs concludes, “The best evidence to date suggests that making a dent in poverty rates will require increasing overall levels of economic growth and employment generation. Micro finance may be able to help some households take advantage of those processes, but nothing so far suggests it will ever drive them” (Morduch 1999a, 1610). Undoubtedly, savings, insurance, and other financial products will help rural businesses manage risk and finance rural investments. Credit, like roads, telephones, and schools, provides an important lubricant enabling commodities and factors of production to flow smoothly in search of opportunities across rural space. But quantum improvements in rural welfare will require new engines of economic growth, new technologies, and new ways of doing business. While smoothly functioning financial markets will be essential in facilitating that transition, history suggests that other forces will drive and accelerate change.

Key Actors

Major governments and donors have once again called for a renewed commitment to expanding economic opportunities for the rural poor. Yet, given the post-Cold War climate of declining aggregate aid flows, the future of rural nonfarm enterprise promotion will look very different from its past. The major external funding injections available for widespread and costly experimentation during the 1970s will simply not be available in the future. Instead, developing country governments’ own resources will dominate rural nonfarm enterprise support as never before.

The private sector will likewise play a larger role in the future than in the past. The liberalization of trade, investment, and markets in the early 1990s has radically altered dynamics in many rural nonfarm subsectors. While growing markets open up new opportunities for some rural nonfarm suppliers, rapidly mutating supply chain management imposes change that many find difficult to accommodate. Because large private firms increasingly drive market growth and opportunities, interveners will need to understand how supply chains are structured and how rural suppliers can benefit from these new opportunities. Increasingly this will involve working with large firms, or at least understanding how they interact with small players in the RNFE.